

Ms. Karen L. Bowne, Senior Reimbursement Manager  
Manor Care Health Services, Inc.  
11555 Darnestown Road  
Gaithersburg, Maryland 20878-3200

Re: AC# 3-MAN-J4 – Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation  
and Nursing Center

Dear Ms. Bowne:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1993 through September 30, 1994. That report was used to set the rate covering the contract periods beginning October 1, 1995.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA  
State Auditor

EAVjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Mac Carroll

**MANOR CARE OF LEXINGTON, INC.  
d/b/a MANOR CARE REHABILITATION  
AND NURSING CENTER**

**WEST COLUMBIA, SOUTH CAROLINA**

**CONTRACT PERIODS  
BEGINNING OCTOBER 1, 1995  
AC# 3-MAN-J4**

**REPORT ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

August 5, 1998

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, for the contract periods beginning October 1, 1995 and for the twelve month cost report period ended September 30, 1994, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
August 5, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA  
State Auditor

**MANOR CARE REHABILITATION AND NURSING CENTER**

Computation of Rate Change  
For the Contract Periods  
Beginning October 1, 1995  
AC# 3-MAN-J4

	<u>10/01/95-</u> <u>03/31/96</u>	<u>04/01/96-</u> <u>09/30/96</u>
Interim reimbursement rate (1)	\$78.80	\$78.80
Adjusted reimbursement rate	<u>78.11</u>	<u>78.11</u>
Decrease in reimbursement rate	\$ <u>.69</u>	\$ <u>.69</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated July 17, 1998

**MANOR CARE REHABILITATION AND NURSING CENTER**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1995 Through March 31, 1996  
AC# 3-MAN-J4

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ .85	\$34.54	\$35.39	\$34.54
Dietary	<u>.60</u>	<u>7.48</u>	<u>8.53</u>	<u>7.48</u>
Subtotal	<u>\$1.45</u>	42.02	43.92	42.02
Laundry/Housekeeping/Maint.	\$1.08	5.93	7.17	5.93
Administration & Med. Rec.	<u>-</u>	<u>13.14</u>	<u>7.86</u>	<u>7.86</u>
Subtotal	<u>\$1.08</u>	61.09	<u>\$58.95</u>	55.81
<u>Costs Not Subject to Standards:</u>				
Utilities		2.27		2.27
Special Services		.88		.88
Medical Supplies & Oxy.		2.29		2.29
Taxes and Insurance		1.48		1.48
Legal Fees		<u>.03</u>		<u>.03</u>
<b>TOTAL</b>		<u>\$68.04</u>		62.76
Inflation Factor (6.30%)				3.95
Cost of Capital				9.90
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.08
Cost Incentive - For Gen. Serv. & Dietary				1.45
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(1.03)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$78.11</u>

**MANOR CARE REHABILITATION AND NURSING CENTER**  
 Computation of Adjusted Reimbursement Rate  
 For the Contract Period April 1, 1996 Through September 30, 1996  
 AC# 3-MAN-J4

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ .85	\$34.54	\$35.39	\$34.54
Dietary	<u>.60</u>	<u>7.48</u>	<u>8.53</u>	<u>7.48</u>
Subtotal	<u>\$1.45</u>	42.02	43.92	42.02
Laundry/Housekeeping/Maint.	\$1.08	5.93	7.17	5.93
Administration & Med. Rec.	<u>-</u>	<u>13.14</u>	<u>7.86</u>	<u>7.86</u>
Subtotal	<u>\$1.08</u>	61.09	<u>\$58.95</u>	55.81
<u>Costs Not Subject to Standards:</u>				
Utilities		2.27		2.27
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Medical Supplies & Oxy.		2.29		2.29
Taxes and Insurance		1.48		1.48
Legal Fees		<u>.03</u>		<u>.03</u>
<b>TOTAL</b>		<u>\$68.04</u>		62.76
Inflation Factor (6.30%)				3.95
Cost of Capital				9.90
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				1.08
Cost Incentive - For Gen. Serv. & Dietary				1.45
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(1.03)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$78.11</u>



**MANOR CARE REHABILITATION AND NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1994  
AC# 3-MAN-J4

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,467,317	\$ -	\$ -	\$1,467,317
Dietary	317,877	-	-	317,877
Laundry	49,609	-	-	49,609
Housekeeping	109,182	-	-	109,182
Maintenance	93,139	-	-	93,139
Administration & Medical Records	558,347	-	-	558,347
Utilities	96,623	-	-	96,623
Special Services	37,587	-	-	37,587
Medical Supplies & Oxygen	115,187	-	17,922 (2)	97,265
Taxes & Insurance	72,767	-	10,000 (1)	62,767
Legal Fees	1,063	-	-	1,063
Cost of Capital	<u>420,555</u>	<u>          </u>	<u>          </u>	<u>420,555</u>
Subtotal	3,339,253	-	27,922	3,311,331

**MANOR CARE REHABILITATION AND NURSING CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1994  
AC# 3-MAN-J4

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	120,516	-	-	120,516
Non-Allowable	309,756	10,000 (1)	-	337,678
		<u>17,922 (2)</u>	<u>-</u>	
Total Operating Expenses	<u>\$3,769,525</u>	<u>\$27,922</u>	<u>\$27,922</u>	<u>\$3,769,525</u>
TOTAL PATIENT DAYS	<u>*42,486</u>	<u>-</u>	<u>-</u>	<u>42,486</u>

\*Adjusted to 97% occupancy

TOTAL BEDS 120

**MANOR CARE REHABILITATION AND NURSING CENTER**

Adjustment Report

Cost Report Period Ended September 30, 1994

AC# 3-MAN-J4

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Taxes and Insurance	\$10,000	\$10,000
	To disallow DHEC bed tax expense State Plan, Attachment 4.19D		
2	Nonallowable Medical Supplies	17,922	17,922
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D	_____	_____
	TOTAL ADJUSTMENTS	<u>\$27,922</u>	<u>\$27,922</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MANOR CARE REHABILITATION AND NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1994  
AC# 3-MAN-J4

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>1.9778</u>
Deemed Asset Value (Per Bed)	30,889
Number of Beds	<u>120</u>
Deemed Asset Value	3,706,714
Improvements Since 1981	1,180,301
Accumulated Depreciation at 9/30/94	<u>(1,272,201)</u>
Deemed Depreciated Value	3,614,814
Market Rate of Return	<u>0.072</u>
Total Annual Return	260,267
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Annual Return Applicable to Nursing Home	260,267
Depreciation Expense	159,395
Amortization Expense	6,866
Capital Related Income Offsets	(5,973)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	420,555
Total Patient Days (Minimum 97% Occupancy)	<u>42,486</u>
Cost of Capital Per Diem	\$ <u>9.90</u>

**MANOR CARE REHABILITATION AND NURSING CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1994  
AC# 3-MAN-J4

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.93
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>10.92</u>
Reimbursable Cost of Capital Per Diem	\$ 9.90
Cost of Capital Per Diem	<u>9.90</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>